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photo engravers & electrotypers Ltd.

Annual Report 1974



leaders in the graphic arts since 1906

photo engravers & electrotypers Ltd.

Directors and Officers

GORDON R. GILLIES, *President*

J. R. SHAW, *Vice-President*

JOHN S. DINNICK

H. B. KEENLEYSIDE, C.B.E.

DOUGLAS J. PEACHER

JAMES M. TORY, Q.C.

D. S. PORTER, C.A., *Secretary and Treasurer*

AUDITORS, *Clarkson, Gordon & Co.*

SOLICITORS, *Tory, Tory, DesLauriers & Binnington*

BANKER, *The Bank of Nova Scotia*

TRANSFER AGENT, *National Trust Company, Limited*

REGISTRAR, *Crown Trust Company*

HEAD OFFICE and PLANT, 2250 Islington Ave., Rexdale, Ontario, M9W 3W4

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PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

FIRST HALF 1974

TO OUR SHAREHOLDERS:

Sales for the six months ended June 30, 1974 amounted to \$4,978,766 compared with \$4,095,746 for the same period last year. Earnings of \$279,225 or \$1.54 per share compare with \$228,372 or \$1.26 per share in 1973.

Increased working capital from operations combined with reduction in capital expenditures resulted in a net increase in working capital of \$191,598 during the period, thus reducing the working capital deficiency to \$762,991 at June 30, 1974. The Company can operate effectively with this working capital deficiency which is expected to continue during the financing period of our expansion programme. Over the next six years, the Company has arranged to repay the term bank loan related to the 1972 - 1974 \$2,550,000 equipment and plant expansion programme. The maximum amount borrowed was \$2,150,000 of which \$250,000 has been repaid leaving the amount presently outstanding at \$1,900,000.

Quarterly dividends of 40¢ per share were paid to shareholders March 1 and June 1, 1974 respectively. A third quarterly dividend of 40¢ per share has been declared payable September 1, 1974. These dividend amounts compare with 30¢ quarterly dividends paid in 1973.

Based on increased requirements for rotogravure printing, we expect that these results for the first six months of 1974 will be reasonably indicative of the results for the year.

L. R. Gillis

July 25, 1974.

President.

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INTERIM FINANCIAL REPORT

STATEMENT OF EARNINGS

	Six Months Ended	
	June 30, 1974	June 30, 1973
Sales - - - - -	\$4,978,766	\$4,095,746
Interest expense - - - - -	142,586	66,135
Earnings before provision for income taxes - - - - -	481,525	393,672
Provision for income taxes - - - - -	202,300	165,300
Net earnings - - - - -	279,225	228,372
Earnings per share - - - - -	\$1.54	\$1.26

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Six Months Ended	
	June 30, 1974	June 30, 1973
WORKING CAPITAL WAS PROVIDED BY:		
Earnings for six months - - - - -	\$ 279,225	\$ 228,372
Charges not affecting working capital—		
Provision for depreciation - - - - -	318,878	261,240
Deferred income taxes - - - - -	150,000	156,000
WORKING CAPITAL FROM OPERATIONS - - - - -	748,103	645,612
Increase in term bank loan - - - - -		340,000
Repayment of notes due under Employees' Stock Purchase Plans - - - - -	23,399	23,399
	<u>771,502</u>	<u>1,009,011</u>
WORKING CAPITAL WAS USED FOR:		
Additions to fixed assets - - - - -	111,684	1,581,253
Repayment of term bank loan - - - - -	250,000	250,000
Dividends - - - - -	218,220	163,665
	<u>579,904</u>	<u>1,994,918</u>
INCREASE (DECREASE) IN WORKING CAPITAL - - - - -	191,598	(985,907)
WORKING CAPITAL (DEFICIENCY), BEGINNING OF PERIOD - - - - -	(954,589)	(479,522)
WORKING CAPITAL (DEFICIENCY), END OF PERIOD - - - - -	<u>\$ (762,991)</u>	<u>\$ (1,465,429)</u>

(unaudited)

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PHOTO ENGRAVERS & ELECTROTYPERS
LIMITED

*Interim Financial Report
for six months ended June 30, 1974*

Artists

Photographers

Rotogravure Engravers

Rotogravure Printers

Bookbinders

Leaders in the Graphic Arts Since 1906

photo engravers & electrotypers Ltd.

Financial Highlights

EARNINGS	1974	1973
Sales - - - - -	\$13,953,318	\$10,335,867
Depreciation - - - - -	642,619	533,012
Income taxes - - - - -	583,000	439,000
Net earnings - - - - -	815,973	587,926
Net earnings per share - - - - -	4.49	3.23
Dividends paid - - - - -	290,960	218,220
Dividends paid per share- - - - -	1.60	1.20
<hr/>		
BALANCE SHEET		
Additions to fixed assets - - - - -	\$ 238,185	\$ 2,443,534
Shareholders' equity - - - - -	5,194,693	4,669,680
Shareholders' equity—per share - - - - -	28.57	25.68

photo engravers & electrotypers Ltd.

Directors' Report to the Shareholders

Your directors are pleased to submit the annual report of the Company for 1974, together with the financial statements and accompanying auditors' report.

SALES AND EARNINGS In 1974, sales amounted to \$13,953,318 compared with \$10,335,867 in 1973. After meeting all charges, including a provision of \$642,619 for depreciation of plant and equipment, and a provision of \$583,000 for income taxes, there remained earnings of \$815,973 or \$4.49 per share compared with \$587,926 or \$3.23 per share for the previous year.

The improvement in 1974 earnings compared with 1973 is primarily attributable to sales developed from increased demand for rotogravure printing.

DIVIDENDS Quarterly dividends of 40 cents per share were paid during 1974, making a total distribution to shareholders of \$1.60 per share or \$290,960 compared with a total distribution of \$1.20 per share or \$218,220 in 1973.

FIXED ASSETS Due to the rising cost of petroleum products, your Board of Directors has approved in principle the installation of a system for recovery of solvent.

WORKING CAPITAL As a result of our recent expansion programmes, current liabilities exceeded current assets by \$212,940 as at December 31, 1974. The Company can operate effectively with a working capital deficiency which is expected to continue during the financing period of our expansion programmes. As a result of fast write-off provisions made available for income tax purposes for expenditures on machinery and equipment, a substantial portion of taxes otherwise payable are deferred as reflected in the Statement of Changes in Financial Position.

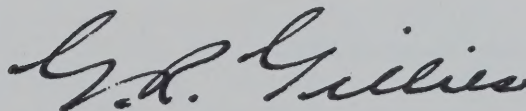
EARNINGS EMPLOYED IN THE BUSINESS As at December 31, 1974 earnings employed in the business amounted to \$4,300,164 compared to \$3,775,151 last year.

SHAREHOLDERS' EQUITY Total shareholders' equity amounted to \$5,194,693 equal to \$28.57 per share, compared with \$4,669,680 or \$25.68 per share a year ago.

OUTLOOK Based on increased requirements for rotogravure printing, we expect that net sales for 1975 will show an increase over 1974.

We extend sincere appreciation to our employees who contributed so much to the high standards of quality and service to our customers.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "G. R. Gillies". The signature is fluid and cursive, with a long horizontal line extending from the end of the name.

President.

Toronto, Canada,
January 28, 1975.

photo engravers

(Incorporated under the laws of the State of California)

BALANCE SHEET

December 31, 1974

(with comparative figures for 1973)

ASSETS

	<u>1974</u>	<u>1973</u>
CURRENT:		
Cash - - - - -	\$ 104,375	\$ 138,413
Accounts receivable - - - - -	396,409	236,365
Portion of notes due within one year under Employees' Stock Purchase Plans (note 4) - - - - -	23,399	23,399
Inventories (note 2) - - - - -	1,447,172	630,398
TOTAL CURRENT ASSETS - - - - -	<u>1,971,355</u>	<u>1,028,575</u>
FIXED, at cost:		
Land and roadways - - - - -	171,963	171,963
Buildings - - - - -	4,614,327	4,614,327
Machinery and equipment - - - - -	10,124,807	9,924,040
	<u>14,911,097</u>	<u>14,710,330</u>
Less accumulated depreciation - - - - -	<u>6,279,375</u>	<u>5,667,370</u>
	<u>8,631,722</u>	<u>9,042,960</u>
OTHER:		
Notes due under Employees' Stock Purchase Plans (note 4) - - - - -	79,911	103,309
	<u>\$10,682,988</u>	<u>\$10,174,844</u>

On behalf of the Board:

G. R. GILLIES, *Director*

J. R. SHAW, *Director*

(See accompanying notes)

electrotypers Ltd.

e laws of Canada)

SHEET

1, 1974

at December 31, 1973)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
CURRENT:		
Bank loan - - - - -	\$ 200,000	\$ 330,000
Accounts payable and accrued charges - - - - -	877,496	791,017
Income and other taxes payable - - - - -	606,799	362,147
Portion of term bank loan due within one year - - - - -	500,000	500,000
TOTAL CURRENT LIABILITIES - - - - -	2,184,295	1,983,164
TERM BANK LOAN (note 3) - - - - -	1,150,000	1,650,000
DEFERRED INCOME TAXES - - - - -	2,154,000	1,872,000
	5,488,295	5,505,164
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized:		
250,000 shares, no par value		
Issued:		
181,850 shares - - - - -	894,529	894,529
Earnings employed in the business - - - - -	4,300,164	3,775,151
	5,194,693	4,669,680
	\$10,682,988	\$10,174,844

financial statements)

photo engravers & electrotypers ltd.

Statement of Earnings and Earnings Employed in the Business

Year ended December 31, 1974

(with comparative figures for the year 1973)

	<u>1974</u>	<u>1973</u>
SALES - - - - -	\$13,953,318	\$10,335,867
COST OF SALES and all expenses, except the items noted below - -	11,565,464	8,576,832
Provision for depreciation - - - - -	642,619	533,012
Interest expense on term bank loan - - - - -	230,340	131,500
Interest expense on current bank loan - - - - -	115,922	67,597
	<u>12,554,345</u>	<u>9,308,941</u>
EARNINGS BEFORE PROVISION FOR INCOME TAXES - - -	1,398,973	1,026,926
Provision for income taxes - - - - -	583,000	439,000
EARNINGS FOR THE YEAR* - - - - -	<u>815,973</u>	<u>587,926</u>
EARNINGS EMPLOYED IN BUSINESS, BEGINNING OF YEAR - - - - -	3,775,151	3,405,445
	<u>4,591,124</u>	<u>3,993,371</u>
Less dividends paid - - - - -	290,960	218,220
EARNINGS EMPLOYED IN BUSINESS, END OF YEAR - - -	<u>\$ 4,300,164</u>	<u>\$ 3,775,151</u>
*EARNINGS PER SHARE - - - - -	<u>\$4.49</u>	<u>\$3.23</u>

(See accompanying notes to financial statements)

photo engravers & electrotypers ltd.

Statement of Changes in Financial Position

Year ended December 31, 1974

(with comparative figures for the year 1973)

	1974	1973
WORKING CAPITAL WAS PROVIDED BY:		
Earnings for the year - - - - -	\$ 815,973	\$ 587,926
Charges (credits) not affecting working capital—		
Provision for depreciation - - - - -	642,619	533,012
Deferred income taxes - - - - -	282,000	352,000
Gain on sale of fixed assets - - - - -		(49,521)
WORKING CAPITAL FROM OPERATIONS -	1,740,592	1,423,417
Proceeds from sale of fixed assets - - - - -	6,803	89,871
Increase in term bank loan - - - - -		1,150,000
Repayment of notes due under Employees' Stock Purchase Plans - - - - -	23,399	23,399
	<u>1,770,794</u>	<u>2,686,687</u>
WORKING CAPITAL WAS USED FOR:		
Additions to fixed assets - - - - -	238,185	2,443,534
Reduction in term bank loan - - - - -	500,000	500,000
Dividends - - - - -	290,960	218,220
	<u>1,029,145</u>	<u>3,161,754</u>
INCREASE (DECREASE) IN WORKING CAPITAL - - - - -	741,649	(475,067)
WORKING CAPITAL (DEFICIENCY), BEGINNING OF YEAR -	(954,589)	(479,522)
WORKING CAPITAL (DEFICIENCY), END OF YEAR - - - -	<u>\$ (212,940)</u>	<u>\$ (954,589)</u>

(See accompanying notes to financial statements)

photo engravers & electrotypers Ltd.

Notes to Financial Statements

December 31, 1974

1. ACCOUNTING POLICIES

Inventories—

Inventories of materials and work in process are valued substantially at cost which does not exceed market.

Depreciation—

Charges are made against earnings for depreciation of investment in buildings, machinery and equipment based on the estimated remaining useful lives of the assets using the straight-line method. The rates of depreciation are generally 2½ % for buildings and roadways and 6¾ % for machinery and equipment.

Income Taxes—

The Company provides for income taxes on the tax allocation basis whereby the provision for income taxes each year is computed on the basis of the depreciation and other charges reflected in the statement of earnings rather than the related amounts claimed as deductions in the Company's tax return.

2. INVENTORIES

Inventories consist of the following:

	1974	1973
Work in process at cost less progress payments received - - - - -	\$ 864,317	\$ 481,425
Paper stock - - - - -	402,788*	
Other materials and supplies - - - - -	180,067	148,973
	<u>\$ 1,447,172</u>	<u>\$ 630,398</u>

*The Company has found it necessary to purchase paper stock in advance of production requirements because of the supply situation.

3. TERM BANK LOAN

Funds not available from operations in recent years to meet major capital expenditures have been provided by means of a term bank loan bearing an annual rate of interest of 1% over the commercial bank prime rate of interest in effect from time to time. This loan is repayable in equal quarterly instalments over six years and these instalments commenced in 1974. There is a maximum amount available under the loan of \$3,000,000 of which \$2,150,000 has been taken up by the Company to December 31, 1974. The Company has undertaken not to pledge or otherwise encumber any of its assets while any portion of this loan is outstanding.

4. EMPLOYEES' STOCK PURCHASE PLANS

In prior years officers and senior management of the Company, two of whom are full time salaried directors, subscribed for and purchased shares of the Company under Employees' Stock Purchase Plans. The shares were issued at the current market price on the day prior to the subscription date, for consideration in the form of non-interest bearing promissory notes. These notes are secured by a pledge of shares of the Company and are due in equal annual instalments over ten years.

5. PENSION PLANS

The majority of the Company's employees are covered by retirement plans. The amount charged to income (including amounts paid to the government pension plan) was \$172,100 in 1974 and \$129,700 in 1973, which amounts included amortization of prior service costs. The unfunded prior service pension costs at December 31, 1974 were estimated to total \$208,100 (\$217,700 in 1973) (approximately equal to the value of the vested benefits at that date) and these will be charged to operations on a straight-line basis over the next sixteen years.

6. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration in 1974 of the Company's six directors, as directors, was \$5,100 (\$5,200 in 1973). The aggregate remuneration in 1974 of the Company's three officers, as officers, was \$160,700 (\$143,500 in 1973). Two directors were also officers of the Company during 1974.

Auditors' Report

To the Shareholders of
PHOTO ENGRAVERS & ELECTROTYPERS LIMITED:

We have examined the balance sheet of Photo Engravers & Electrotypers Limited as at December 31, 1974 and the statements of earnings and earnings employed in the business and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1974 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 15, 1975.

Clarkson, Gordon & Co.
Chartered Accountants

photo engravers & electrotypers ltd.

Ten Years' Review

Earnings

Year	Sales	Provision for Depreciation	Earnings Before Income Taxes	Net Earnings	Net Earnings Per Share	Dividends Per Share
1965	\$ 4,796,848	\$242,090	\$ 433,793	\$220,093	\$1.34	\$.80
1966	5,323,927	305,789	501,770	254,270	1.55	.80
1967	5,960,022	327,032	564,640	282,140	1.61	.80
1968	6,495,118	360,111	608,186	293,486	1.68	.80
1969	7,347,776	501,444	691,336	323,736	1.85	.86
1970	8,228,668	486,597	690,195	327,195	1.87	.92
1971	8,461,994	504,362	834,293	422,793	2.35	.97
1972	8,748,533	507,528	849,639	443,639	2.44	1.12
1973	10,335,867	533,012	1,026,926	587,926	3.23	1.20
1974	13,953,318	642,619	1,398,973	815,973	4.49	1.60

Balance Sheet

Year	Working Capital (Deficiency)	Plant and Equipment at Cost	Plant and Equipment After Depreciation	Long Term Debt		Shareholders' Equity	Shareholders' Equity Per Share
				Funded Debt	Term Bank Loan		
1965	\$643,667	\$ 5,999,022	\$3,170,037	\$750,000		\$2,625,304	\$15.97
1966	764,131	6,535,191	3,403,065	500,000		2,920,041	17.77
1967	244,788	7,641,891	4,255,915	250,000	\$ 255,000	3,206,091	18.32
1968	(611,244)	9,477,706	5,738,084		712,000	3,359,577	19.20
1969	(539,181)	10,633,676	6,399,648		1,144,000	3,532,813	20.19
1970	(991,492)	12,068,972	7,435,020		1,410,000	3,699,008	21.14
1971	(859,653)	12,261,782	7,131,953		920,000	4,060,007	22.33
1972	(479,522)	12,800,280	7,172,788		1,000,000	4,299,974	23.65
1973	(954,589)	14,710,330	9,042,960		1,650,000	4,669,680	25.68
1974	(212,940)	14,911,097	8,631,722		1,150,000	5,194,693	28.57



Artists

Photographers

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Bookbinders